Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Connect America Fund	)	WC Docket No. 10-90

Comments of TCA

On December 20, 2016 the Federal Communications Commission (FCC or Commission) released, as part of the *A-CAM Revised Offer Order*, a Further Notice of Proposed Rulemaking (FNPRM) in the above referenced docket[1] seeking comment on a proposal to increase the size of the budget for the Alternative Connect America Cost Model (A-CAM) by allocating additional Universal Service Fund (USF) high-cost program funds to the model. TCA sincerely appreciates the opportunity to comment on this important issue. As explained more fully below, TCA supports additional support for A-CAM as part of an overall increase in the allocated USF high-cost program funds for rate of return incumbent local exchange carriers (RLECs), regardless of whether they receive A-CAM or legacy rate-of-return (RoR) mechanisms support.

TCA is a national consulting firm that performs financial, regulatory and marketing services for over one-hundred rural LECs and their affiliates. The vast majority of TCA clients are RoR regulated in the interstate jurisdiction and offer traditional voice and broadband services to their customers. Because of their sparsely-populated high-cost service areas, they are heavily dependent upon federal and state high-cost support mechanisms.

The FCC indicates that if it were to provide additional support in the A-CAM mechanism, bringing support amounts to the levels of the initial A-CAM offers, it would require

[1] *Connect America Fund*, Report and Order and Further Notice of Proposed Rulemaking, FCC 16-178 (rel. Dec. 20, 2016) (*A-CAM Revised Offer Order and FNPRM*).

electing RLECs to build out to the same number of locations covered in the initial offer. This would result in as many as 50,000 more rural Americans gaining access to broadband at speeds of 10/1Mbps or better.[2] This result is clearly in the public interest and should be adopted.

However, this laudable outcome is only part of the story, as Commissioner Michael O'Rielly correctly points out in his accompanying Statement.[3] It is even more important that the FCC address the funding insufficiencies in the legacy RoR mechanisms if it wants to truly make broadband affordable to rural consumers. As part of its RoR Reform Order, the FCC established a budget constraint mechanism to maintain an overall cap on high cost program support to RLECs.[4] This arbitrary cap was established in the USF Reform Order, and there is no evidence that suggests it provides sufficient funding to meet the FCC's goals of universal access to broadband.[5] Indeed, the evidence is overwhelming that the cap is wholly insufficient to fund the FCC's new mechanism supporting broadband-only service. For example, RLECs remaining on legacy RoR mechanisms will experience reductions in support by an average of approximately 9% in the first half of 2017. In fact, an analysis of 14 TCA clients shows that their customers would have to pay $93.70 on average, just to cover the **regulated wholesale** costs of providing standalone broadband before they would be eligible for Connect America Fund Broadband Loop

[2] *Id.* at para. 19.

[3] *Id.* at p. 10., "Indeed, as we continue to consider how to efficiently and effectively promote broadband deployment in this country, we need to make policy decisions in a holistic manner."

[4] Report and Order, Order, Order on Reconsideration, and Further Notice of Proposed Rulemaking, WC Docket No. 10-90, Connect America Fund, WC Docket No. 11-42, Telecommunications Carriers Eligible for Universal Service Support, and CC Docket No. 01-92, Developing a Unified Intercarrier Compensation Regime, FCC 16-33 (rel. March 30, 2016) (*RoR Reform Order*). at paras. 146-155.

[5] Connect America Fund, WC Docket No. 10-90, A National Broadband Plan for Our Future, GN Docket No. 09-51, Establishing Just and Reasonable Rates for Local Exchange Carriers, WC Docket No. 07-135, High-Cost Universal Service Support, WC Docket No. 05-337, Developing an Unified Intercarrier Compensation Regime, CC Docket No. 01-92, Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Lifeline and Link-Up, WC Docket No. 03-109, Universal Service Reform – Mobility Fund, WT Docket No. 10-208, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161 (rel. Nov.18, 2011)

Support (CAF BLS) for these customers.[6] This amount does not include any non-regulated and internet service provider costs, meaning that retail rates will be significantly above $100, and may even exceed $150 in many cases – twice as much as the 2016 urban reasonably comparable benchmark rate of $75.20.[7] This result thwarts the intent of the RoR Reform Order, which was to ensure rural customers served by RLECs had access to affordable broadband-only service. Indeed, the application of the arbitrary budget constraint effectively negates any benefit to offering broadband-only service for most RLECs.

Anecdotally, the cap on high cost program support for RLECs was established with the presumable intent to ensure that RLECs are operating efficiently. However, this justification is no longer valid. The FCC has already addressed efficiency when it established limitations on operations and capital expenditures that are recoverable through USF.[8] Even the FCC's A-CAM model, which simulates costs of providing broadband service in rural areas in an efficient manner, could not provide support to all RLECs for less than $2 billion without the use of a

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[6] This analysis calculates an average Consumer Broadband Only Loop (CBOL) rate for 14 RLECs and assumes a 10% take rate of broadband-only service.

[7] *See* Petition for Reconsideration and/or Clarification of NTCA, WC Docket No. 10-90, et al. (filed May 25, 2016). at p. 6. NTCA points out that with all budgetary impacts taken into account, rural customers will pay significantly more for broadband service than their urban counterparts and seeks reconsideration of this provision. NTCA indicates that:

- Consumers served by some of the lowest-cost RLECs (those in the 25th percentile of NECA rate bands) are estimated to pay on average at least $89.66 per month for retail standalone broadband – or $14.46 per month higher than what the Commission has identified as a "reasonably comparable" rate.
- Consumers served by an "average cost" RLEC (in the 50th (median) percentile of NECA rate bands) are estimated to pay on average at least $104.86 per month for retail standalone broadband – or $29.66 per month higher than what the Commission has identified as a "reasonably comparable" rate.
- Consumers served by some of the highest-cost RLECs (those in the 75th percentile of NECA rate bands) are estimated to pay on average at least $123.35 per month for retail standalone broadband – or $48.15 per month higher than what the Commission has identified as a "reasonably comparable" rate.

[8] *RoR Reform Order.* at paras. 95-115.

"Mechanism to Meet the Budget."[9] It is clear that the FCC must reevaluate the sufficiency of the RLEC high cost program budget.

In conclusion, TCA supports increasing the high cost program budget for A-CAM as long as the FCC also addresses the insufficiency of RoR legacy mechanism support. The FCC should provide A-CAM electors with their initial support offers and obligations and should eliminate the legacy budget constraint mechanism.

Respectfully submitted,

/s/ Stacey Brigham
Stacey Brigham, Sr. Regulatory Consultant
TCA, Inc.
526 Chapel Hills Drive, Suite 100
Colorado Springs, CO 80920
(719) 266-4334

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[9] Connect America Fund, WC Docket No. 10-90. DA 15-337, rel. March 16, 2015. at footnote 3 - CAFII - A-CAM 1.0.1 - Report Version 1.0, rel. March 2015